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Reserve



Issue Briefing Paper

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Title: THE FARMER-OWNED GRAIN RESERVE PROGRAM

BACKGROUND

Early in 1977, there were predictions of bumper crops in the U.S. and throughout most of the world. By harvest these predictions had materialized.

There was so much grain on the market farmers couldn't get a reasonable price for their crop and prices for food and feed grains had tumbled.

Corn had dropped to \$1.60 per bushel. Sorghum was \$2.52 per hundredweight. Barley was \$1.53 per bushel. Oats were 91 cents per bushel and wheat was \$2.03 per bushel.

The low prices were particularly evident in the spring for wheat, prompting the Secretary of Agriculture to establish a farmer-owned food grain reserve. In the fall, with the drop in feed grain prices, Congress enacted the Food and Agriculture Act of 1977. The Act mandated a wheat reserve when supplies were excessive and encouraged a feed grain reserve.

The objective of the reserve was to give farmers a way to keep price-depressing grain supplies off the market until their value increased. That object has been accomplished for certain grains whose prices have risen to the point where they have been sold from the reserve.

Here's how the reserve works.

PURPOSE OF THE RESERVE

An adequate reserve program helps to:

--maintain U.S. agricultural export preeminence by assuring customers of a dependable source of products, thereby encouraging further growth of overseas markets for U.S. farm goods;

--strengthen farm prices when supplies are excessive;

--dampen food price gyrations and combat inflation;

--give livestock producers protection from extremes in feed costs; and

--contribute to greater continuity in foreign food aid.

DEVELOPMENT OF THE PROGRAM

The immediate impact of the new grain reserve program was to take excess grain supplies off the market. Eligible commodities were 1976 and 1977-crop wheat, corn, sorghum, barley and oats, which were under loan or purchase agreement by the Commodity Credit Corporation (CCC), an instrumentality of the U.S. Department of Agriculture. Later, for a short time, 1978-crop corn was eligible.

Farmers who participated in the program agreed to store their grain for a three-year period or until the price reached pre-determined higher market levels. In return, farmers received a price support loan on their grain plus annual storage payments in advance of 25 cents per bushel for barley, corn, wheat and sorghum and 19 cents per bushel for oats.

The interest rate on reserve loans was to be charged at the same rate as the original crop loan. No interest was to be charged for the last two years of the reserve agreement. Storage requirements were to be the same as for grain placed in the regular price support loan program.

Grain held under the reserve could be stored either on the farm or in commercial warehouses. However, if farmers used commercial storage they had to furnish proof they had arranged one year's storage with the warehouse before the department would make advance storage payments to them.

FARM STORAGE LOANS

To further assist farmers and encourage their participation in the reserve, the department revised and expanded its farm storage facility loan program, offering loans to farmers to build new storage structures big enough to hold two years' crop production.

Existing storage capacity already in use for reserve storage would not be counted against that two-year production limit. The government authorized rotation or substitution of grain, upon its approval, to maintain quality of the reserve stocks.

DIFFERENT FROM "RESEAL"

There is a distinct difference between the farmer-owned grain reserve program and the reseal programs of the past.

The basic idea behind the reserve is to isolate grain from the market, when supplies are large and prices are low, until prices rise to a more profitable level. Farmers retain ownership of their grain but must pay a penalty unless they hold it until its value

reaches a certain higher price level.

The old resale program, on the other hand, had been offered as a stop gap measure to avoid taking larger quantities of grain into CCC inventories when prices were at or near the price support loan level.

Grain under resale was not isolated from the market since farmers could offer it for sale at any time.

"RELEASE" AND "CALL" LEVELS

Reserve grain is "released" when the national average market price reaches 125 percent of the then-current national average loan rate for feed grains or 140 percent of the then-current national average loan rate for wheat.

The release prices for this crop year are \$3.29 per bushel for wheat, \$2.50 for corn, \$1.29 for oats, \$2.04 for barley and \$4.24 per hundredweight for sorghum.

When prices reach this point, a farmer has three options:

--pay off the reserve loan and sell the grain;

--leave it in the reserve; or

--pay off the loan and hold the grain.

Early redemption, before the release level, carries penalties. Farmers have to repay all storage payments plus interest, in addition to the original loan payment and interest. Minimum repayments must equal a price level of the per bushel release price of the grain times the quantity redeemed.

Storage payments stop with the second consecutive monthly release notice on a commodity in the reserve.

At the "call" level--when the national average market price reaches 140 percent of the then-current national average loan rate for food grain or 175 percent of the then-current national average loan rate for wheat--reserve loans are called by the CCC. This means farmers have 30 days after the "call" either to redeem the reserve loan or forfeit their grain to the CCC.

However, even after farmers satisfy their loans at "call," they are under no obligation to sell their grain. Farmers can continue to hold the grain in storage for still higher prices.

At the inception of the reserve, Secretary of Agriculture Bob Bergland said he would not allow grain held in government inventories to be sold unless prices exceeded the "call" levels.

The minimum CCC sales prices for reserve commodities are 180 percent of loan for wheat and 150 percent of loan for feed grains. Current call levels are \$4.11 per bushel for wheat, \$2.80 for corn, \$1.44 for oats, \$2.28 for barley and \$4.75 per hundredweight for sorghum.

Release and call levels for feed grains were set lower than those for wheat to minimize possible disruptive impacts of wide feed price swings on the livestock industry.

KEY DATES AND EVENTS

Grain prices rallied somewhat in the summer of 1978, causing barley to be placed in release status for about a month. Grain prices rose again in the spring of 1979, resulting in barley being again released on June 5, and called on June 26.

Oats was the second commodity to hit the release level, March 12, 1979. It remained in release status until May 2. It was released again May 11 and called June 26.

Wheat was released May 16 and July 2 the department announced wheat would remain in release status at least through July 31. Storage earnings stopped in all states June 30.

Corn was released June 19 and sorghum June 22.

On June 26, with barley and oats being called and other commodities nearing the call level, the department noted possible complications that might arise due to overloaded or tangled truck and rail transportation facilities.

Therefore, prior to the repayment deadline, employees of the county offices of the department's Agricultural Stabilization and Conservation Service (ASCS) will make assessments to determine if it is physically possible for individual farmers to deliver their farm stored commodities. In areas where there is no commercial storage or adequate transportation, county agricultural stabilization and conservation committees are authorized to grant additional 30-day periods for farmers to repay their reserve loans for farm stored crops.

If transportation and storage problems continue, department employees will make additional assessments at 30-day intervals to determine if additional 30-day extensions should be offered. Delays in delivery or repayment apply to loans made for grain stored on farms. Farmers must forfeit loans for grain stored in warehouses after 30 days unless repaid before the cutoff date.

HOW THE PRICE COMPUTATIONS ARE MADE

Some confusion and misunderstanding was inevitable over methods used to calculate release and call levels. The department followed this procedure:

Two price reports are used by ASCS to determine release of a commodity from the reserve:

(1) the mid-month price received by farmers, published by the Economics, Statistics and Cooperatives Service (ESCS) and;

(2) the daily closing prices of major markets gathered by the Agricultural Marketing Service (AMS), adjusted back to the price the farmer receives at the farm.

ESCS prices are obtained by telephone survey of 75 percent of all mills and elevators and reflect prices received by farmers at all locations on about the 15th of the month. This price is available on the last day of the month.

AMS obtains its prices by collecting them daily from major markets for each commodity. These markets are: wheat--Kansas City, Portland, Ore.; Minneapolis and Chicago; corn--Kansas City, Omaha, Chicago, St. Louis and Minneapolis; oats--Chicago and Minneapolis; barley--Stockton, Calif.; Minneapolis and Portland; sorghum--Texas High Plains and Kansas City.

While the basic consideration is the ESCS mid-month price, which shows the most recent price actually received by farmers, the department makes a daily review of the AMS market prices to determine if a trend upward should authorize release of the grain.

Each day the department collects prices from the major markets. It computes a simple average and adds it to the four preceding days' averages. The total of the five days is then divided by five to arrive at the five-day major market average.

Since the national average price must reflect the price received by farmers, an amount is deducted that will reduce the major market average price to an at-the-farm price. This difference reflects an average of transportation, handling and related costs. After this deduction, the figure remaining represents the moving five-day national average for that particular day.

This example shows how the national average market price for wheat was determined for May 15.

Major Wheat Market Prices:

Kansas City	\$3.74	
Chicago	3.98	
Minneapolis	3.77	
Portland	+ 4.05	
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	15.54 ÷ 4 =	\$3.88 (Average price for May 15)

Five-Day Average for Major Wheat Markets

May 9	\$3.83		
May 10	3.82		
May 11	3.89		
May 14	3.93		
May 15	+ 3.88		
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	\$19.35	$\div 5 =$	\$3.87 Five-day average.
		$- .56$	Adjustment factor.
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		\$3.31	National price received by farmers May 15.

The national average price received by farmers was above \$3.29 and daily prices were not showing a trend downward, thus release was authorized.

Call level determinations are made the same way as release level determinations but at the higher call level percentages.

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